

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
January 16, 2004
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Karl Polen, Chairperson, Arizona State Retirement System Board, called the meeting to order at 8:37 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call, Opening Remarks

Present: Mr. Karl Polen, Chairperson (Teleconference)
Mr. Norman Miller, Vice Chairperson
Ms. Charlotte Borchert
Mr. Jim Bruner
Dr. Keith Meredith
Mr. Lawrence Trachtenberg
Mr. Steven Zeman

Excused: Dr. Chuck Essigs

A quorum was present for the purpose of conducting business.

Also Present: Mr. Michael Townsend, Board Trustee Elect
Ms. Anne Mariucci, Board Trustee Elect

Mr. Karl Polen, Chairperson, turned the meeting over to Mr. Norman Miller, Vice-Chairperson because Mr. Polen was attending the meeting via teleconference.

2. Approval of Minutes of the December 1 and 2, 2003, Special Meetings and the December 19, 2003, Regular Meeting of the ASRS Board

Motion: Ms. Charlotte Borchert moved to approve the minutes of the December 1 and December 2, 2003, Special Meetings and the December 19, 2003, Regular Meeting.

Mr. Jim Bruner seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

3. Approval of Consent Schedule

Motion: Mr. Jim Bruner moved to approve Refunds, Death Benefits, Retirements, System Transfers, and the Applications and Agreements with:

- Northeast Arizona Technological Institute of Vocational Education (NATIVE)

And approve the notice of Rulemaking Docket Opening for Rules R2-8-123 and R2-8-126.

Mr. Steven Zeman seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding 2004 Legislation as requested by the External Affairs Committee

Mr. Richard Stephenson, Deputy Director, External Affairs, provided an update regarding 2004 Legislation. All approved policy issues have been drafted into bills and introduced to the House of Representatives under the sponsorship of Representative John Huppenthal, Chairperson, the Government & Retirement Committee (GR).

House Bill 2049 pertains to political sub-division entities and provides that such entities may participate in the ASRS. This bill has been amended to allow an active member of a participating political entity to purchase service under the statute that was in effect before January 1, 2004, as long as he or she applies for the service purchase before December 31, 2004. This bill has passed through the GR Committee and is on its way to the Senate.

All ASRS bills are scheduled to be heard by the GR Committee next week.

Mr. Norman Miller, Vice Chairperson, introduced Senator Marsha Arzberger, who wished to speak to the ASRS Board during the Call to the Public. Senator Arzberger represents approximately 170,000 people in her district. Senator Arzberger conveyed an interest in the issue of healthcare benefits for retirees, particularly the higher cost of health insurance for retirees residing in rural areas. These retirees should have access to comparable healthcare coverage. She said hundreds of calls are being received regarding this issue.

5. Presentation, Discussion and Appropriate Action Regarding the Board Governance Handbook as requested by the ASRS Board

Mr. Paul Matson, Director, provided an update pertaining to the Board Governance Handbook. This handbook encountered a number of reviews and revisions. The copy provided in the Board packet is the latest version with all Trustee requested changes including some minor changes by Mr. Matson as follows:

The language was clarified, where possible, to eliminate ambiguity and simplify wording. The language was also modified in order to make all references gender neutral.

The method for placing items on Board agendas was modified in order to provide a consistent method for Trustees, Board Committees, the Chairperson, and the Director to add items.

The time frame for Board and Director evaluations has been modified to allow for some flexibility. These evaluations will be completed within the first quarter of each year.

The term Special Committee will be the sole term used for the purposes of consistency, rather than referring to Special Committee or Ad Hoc Committee.

With respect to Board materials, the ASRS staff will ensure that all Board materials are mailed at least five calendar days in advance of a meeting rather than seven calendar days in advance. (Staff will continue to target mailing these materials seven days in advance.)

In order to allow for special circumstances such as request for proposals reviews, the notification time frame for Board and Committee dates was modified to generally provide seven days notification of Board and Committee dates.

The non-governance related tables such as the Education Evaluation Form, Educational Seminar Listing, Organizational Chart, Contact Information, and Meeting Calendars were removed from the Handbook. Such information is not governance related and is subject to frequent changes.

Finally, the section pertaining to Strategic Planning was revised to focus on the Roles and Responsibilities of Strategic Planning rather than the process of Strategic Planning.

Motion: Mr. Jim Bruner moved to approve the ASRS Board Governance Handbook with staff to come back to the Board within the next two months with a Mission Statement and Core Values Statement for inclusion in the Handbook.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

6. Director's Report

Mr. Matson reported that the Fund's total rate of return is estimated to be 23.7% for calendar year 2003. The fiscal year to date rate of return is 15.3%.

Mr. Matson provided a brief description of the following major projects currently underway at the ASRS:

Actuarial Review – ASRS staff are currently in the process of reviewing actuarially determined returns to ensure that actuarial allocations are accurate.

Actuarial Audit – A firm has been hired to conduct the actuarial audit. This process should begin on or about January 31, and conclude on or about March 31, 2004. The actuarial valuation and the assumptions will be reviewed along with the experience study.

Real Estate Portfolio – The Board passed a change in the ASRS' current asset allocation which allocated assets of 6% to real estate. An internal staff member has been hired along with an external real estate consultant to assist the ASRS in this transition.

Proxy Voting Guidelines – The guidelines have been modified and updated to make them clearer, and will be presented to the Investment Review Committee.

Securities Litigation – An internal procedure is being drafted for the ASRS to follow with respect to securities litigation. Mr. Gary Dokes, Chief Investment Officer, will bring this policy and procedure before the Investment Review Committee for review over the next month. A request for proposals will then be issued to obtain external law firms secured for this process.

Vision & Mission Statement for the ASRS – The ASRS does have a vision and mission statement in place, however, these statements have not been reviewed for some time. A meeting has been scheduled for the ASRS management staff to review the mission and vision statements of the ASRS. The ASRS trustees will also be asked for input.

Mr. Miller suggested that the proposed vision and mission statements be posted on the ASRS website requesting input from visitors of the website.

Financial Accounting System Software – A financial accounting software system is under review. Interviews have begun and a determination will be made as to what software to select and utilize for this system.

Global Tactical Asset Allocation – Ten percent of ASRS assets have been migrated from domestic tactical asset allocation to global tactical asset allocation (GTAA). These assets will be managed by two external investment managers.

7. Brief Summary of Current Events

Mr. Terry Dennison, Consultant, Mercer Investment Consulting, provided a brief summary pertaining to the economy. The economy continues to improve with sales including sales in technology picking up. We will continue to see low interest rates. This indicates a good year for economic growth and a decline in unemployment.

Mr. Matson introduced Mr. Michael Townsend and Ms. Anne Mariucci as two future ASRS Board Trustees appointed by the Governor.

8. Board Requests for Agenda Items

None.

9. Call to the Public

Dr. Bev Cuthbertson represents all Arizona School Retirees Association. She voiced a concern with regards to the ASRS involvement in foreign investments. She believes the ASRS must be very careful with respect to investing with countries who may have ties to terrorism.

10. The next ASRS Board meeting is scheduled for Friday, February 20, 2004, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona

11. Adjournment of the ASRS Board

Mr. Norman Miller, Vice-Chairperson, adjourned the January 16, 2004, meeting of the ASRS Board at 9:29 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Marina Chaves, Secretary

Date

Paul Matson, Director

Date